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TAGS: [PGOV](#) [PREL](#) [ECON](#) [ETRD](#) [VZ](#) [UY](#)
SUBJECT: VENEZUELAN FM PLEDGES IMMEDIATE TARIFF CUTS FOR
URUGUAYAN GOODS

REF: MVD 0275 AND PREVIOUS

Classified By: CDA ROBIN MATTHEWMAN, FOR REASONS 1.4 (B) & (D)

Summary

¶1. (U) During a brief visit to Uruguay, Venezuelan FM Maduro announced August 18 that 214 Uruguayan products -- representing around 60 percent of Uruguayan exports to Venezuela -- would be granted duty-free entry into Venezuela effective immediately. Uruguay's trade with Venezuela has increased significantly over the past three years, and this step could spur that trend. Implementation is uncertain, however, as it appears to conflict with WTO rules. The Venezuelan FM's visit may provide a temporary boost to Uruguay-Venezuela relations, but GOU officials downplayed its significance. End Summary.

Immediate Dividends

¶2. (U) Venezuelan Foreign Minister Nicolas Maduro visited Montevideo August 17 and announced that President Chavez had agreed to the duty-free entry into Venezuela of 214 Uruguayan products, effective immediately. Most local media played up the announcement and its anticipated benefits to Uruguay, quoting Venezuelan Minister of Industry William Contreras as estimating an increase in trade of around USD 300 million. Uruguayan FM Gonzalo Fernandez and Maduro also announced both sides' intention to cooperate on projects such as the joint utilization of a Venezuelan satellite scheduled for launch November 1, development of water purification plants, biotechnology centers, and an insulin factory.

Venezuela's Offer Nothing New

¶3. (U) Maduro characterized as "historic" Chavez's decision to offer zero tariffs on the list of Uruguayan products, but the GOV's offer wasn't new. On July 4, 2006, when applying for full membership in Mercosur, the GOV committed to eliminate tariffs and enforce effective market access on a list of products from Mercosur's smallest partners, Uruguay and Paraguay (Uruguay's list at the time contained 214 products). However, the original offer was to take effect once Venezuela's accession to Mercosur entered into force. Venezuela has now decoupled its full accession from the tariff cuts, allowing them to take place immediately.

¶4. (U) Pharmaceuticals account for around half of the affected products. The list also includes 27 types of beef products, 19 related to fish, 20 involving leather bags and

suitcases, 11 dairy products, and six apparel items. The items comprise over 60 percent of Uruguay's exports to Venezuela.

15. (C) There is sand in the works, however. According to MFA Director of Trade Policy Alvaro Ons, GOU and GOV officials have received political instructions to implement the tariff cut immediately, but trade experts on both sides are concerned about WTO challenges. WTO rules specify that a country cannot cut tariffs unilaterally for another country, except under a comprehensive trade agreement like a FTA.

A Burgeoning, but Difficult Bilateral Trade Relationship

16. (U) Uruguay's trade with Venezuela has grown rapidly since the Vazquez administration took office in 2005, and Venezuela has become Uruguay's eighth-largest export market. In 2005 Uruguay exported USD 9 million to Venezuela and imported only USD 500,000 from that country. In 2007, those numbers were USD 43 million and USD 202 million, respectively.

17. (C) Moving those numbers has been a struggle, however. The MFA's Ons told the Embassy August 18 that it is very difficult to do business with Venezuela, saying: "In order to sell to Venezuela you need an import license or a certificate of need, plus a permit to buy dollars. It requires almost a miracle to make the sale. And it requires a full miracle to get paid." The only sales that are moving smoothly are those of products that Venezuela urgently needs, such as powdered milk, according to Ons.

18. (U) Uruguay's trade with Venezuela is also becoming a political minefield. President Vazquez's son Javier, an information systems entrepreneur, and several prominent current and ex-GOU functionaries were named in a suit filed by opposition Deputy Washington Abdala (Colorado Party) as having illegally profited from a Venezuelan fund established using earnings from oil sales to Uruguay.

GOU Pushes GOV on Promises; Downplays Visit

19. (C) Comment: The GOU is not attributing special significance to the Maduro visit. FM Fernandez told Ambassador Baxter August 8 that President Vazquez had been giving Chavez the cold shoulder as a result of Venezuela's delay in making good on economic commitments. Fernandez noted then that Maduro's visit could be considered a success of the strategy of keeping Venezuela at arm's length. Still, it is only a partial success, as other important promises, such as Venezuela's commitment to fund the refurbishment of Uruguay's only oil refinery, remain unfulfilled. Maduro's visit generated considerable attention in the local press, but MFA Deputy Director of Political Affairs Ambassador Nestor Moreira told Emboff August 19 that the visit resulted in nothing new or important, saying that Uruguay tries to have such meetings with every country once a year. Moreira then emphasized: "We are having a similar meeting with Guatemala this month." End Comment.

Matthewman